



TfN Statement of Accounts Audit & Governance Committee





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Public Inspection Period

- Statute requires us to hold our draft accounts open to public inspection
- Local electors may then exercise statutory rights to inspect records and ask questions of the external auditor
- The inspection period must last for 30 working days
- The FD authorised the publication of the draft accounts for public inspection on the 31st May for a period commencing 3rd June to 12th July





Basis of Preparation

- TfN prepares its statutory accounts in the same manner as local government bodies such as local authorities and Combined Authorities
- TfN's position as a local government body is prescribed by the Office for National Statistics
- The accounts are prepared in accordance with the CIPFA Code
- The CIPFA Code recognises accounting standards and statutory accounting requirements
 - Where accounting standards and statute differ, statute has precedence

Structure of the Accounts

Narrative Statement	Independent Auditors Report	Statement of Responsibilities	Core Financial Statements	Disclosure Notes	Annual Governance Statement
Structure Objectives Qualitative Performance Financial Performance Outlook	Inserted upon completion of the audit	Who's responsible for what in the Accounts	Comprehensive Income & Expenditure Statement Balance Sheet Cash Flow Statement Movement in Reserves	Explanatory Notes for: Notes to the Core Financial Statements Supporting Disclosure Notes Disclosures Required under Statute	Details how decisions are made How risks are identified, managed, and mitigated Any areas of concern





Core Financial Statements



Comprehensive Income & Expenditure Statement

- Details income and expenditure for the year in accounting terms
- Differs from management outturn due to:
 - Accounting standards
 - Statutory provision
- Key issues include
 - Treatment of capital items
 - Treatment of net estimated pension liabilities
 - Recognition of grant income
 - Recognition of a provision for accumulated absences





Balance Sheet

- Details assets and liabilities
- Reserves show how the net assets are funded
- Reserves are split between:
 - Usable – available to resource expenditure
 - General Fund Reserves
 - Capital Grants Unapplied
 - Unusable – not available to resource expenditure
 - Capital Adjustment Account
 - Pensions Reserves
 - Accumulated Absence Reserve
 - Unusable reserves allow for statutory overrides of accounting standards to be managed



Cash Flow Statement

- Details the inflows and outflows of cash in TfN's bank accounts over the course of the year
- The Statement removes non-cash transactions required under accounting standards such as depreciation and amortisation
- The Statement is split between flows of cash relating to:
 1. **Operating Activities**
Day-to-day activity, normally of a revenue nature
 2. **Investing Activity**
Ordinarily capital investment activity
 3. **Financing Activity**
How TfN has financed its activities through credit
- TfN's powers prohibit it from accessing credit, so the Statement is limited to operating and investing activity





Reconciliation of Management Outturn to CIES





Differences between the costs and income shown in the management accounts arise from accounting standards and statutory overrides

Expenditure	£m
Outturn Position	£34.45

Adjustments for:

Depreciation	£0.30	In CIES not in outturn
Pensions	£2.72	In CIES not in outturn
Absence Provision	£0.14	In CIES not in outturn
IST Capital - Phase 2	-£0.90	In outturn not in CIES
IST Capital - Phase 3	-£4.32	In outturn not in CIES
Enterprise Resource Planning Capital	-£0.36	In outturn not in CIES

CIES Balance

£32.03

Income	£m
Outturn Position	£34.45

Adjustments for:

Pensions	£0.08	In CIES not in outturn
IST Capital Grant - Taken to Capital Grants Unapplied	£2.11	In CIES not in outturn

Amounts taken to General Fund Balance:

IST Revenue Grant - Transferred to Earmarked Reserve	£1.94	In CIES not in outturn
Core Grant - Taken to General Fund Reserve	£5.58	In CIES not in outturn

CIES Balance

£44.16



Key Items in this Year's Accounts





Capital Expenditure

- Development of Intangible Assets
 - ERP asset has been developed in-year and prior-year IP received from SCR
 - Operational and being amortised
 - Integrated & Smart Ticketing (IST) Phases 2 and 3 complex information systems are being developed
 - Not operational
- Revenue Expenditure Funded from Capital Under Statute
 - Phase 1 IST expenditure results in capital assets being acquired, but for the train operating companies rather than TfN
 - Ordinarily, this would be treated as revenue expenditure
 - Statute allows TfN to override accounting standards and treat the expenditure as capital





Pensions Accounting

- Fundamental difference between how TfN pays employers' pension contributions to its Pension Fund and how accounting standards value the net estimated liability
- The Pension Fund (GMPF) calculates on the basis of long-range reviews every three years
 - Reviews include assumptions around contributing members, pay inflation, mortality rates and forecast returns
 - The triennial review delivers a contribution rate, and monthly payments are made
- Accounting standards require a different basis of calculation
 - Largely driven by a discount-rate that is calculated from the spot performance of high quality bonds at the valuation date
 - The valuation date this year was the 31st March, with the last working date being the 29th March – or the date that the UK was due to leave the EU
 - This affected the discount rate

Pensions Accounting





Pensions Accounting

- TfN has comfort that it paid the actuary to review its contribution rate in 2018/19
- The actuary judged that TfN's contribution rate was too high and proposed a lower rate
- GMPF will undergo its triennial revaluation in 2019/20, at which point the contribution rate will be reassessed
- TfN's situation is reflected nationally, with similar movements amongst TfN's partners:

Pension Liability Movements Authority	2017/18	2018/19	Variance	Variance
	£m	£m	£m	%
Cumbria County Council	£739	£852	£113	15%
Lincolnshire County Council	£882	£1,016	£134	15%
Staffordshire County Council	£948	£1,105	£157	17%
Merseytravel	£81	£94	£13	16%





Grant Accounting

- TfN is an almost entirely grant funded organisation, so how TfN accounts for those grants as income is important
- The key issues are around how TfN:
 - Recognises the grants received as income
 - Where grant income is shown on the face of the CIES
 - How grants recognised as income but not yet applied to income are held
- Key determinants on how to apply treatments are:
 - Whether the conditions of use have been met
 - Whether there are restrictions on use
 - Whether unused allocations may have to be returned to the grantor
 - Whether the grants are capital or revenue in nature





Grant Accounting

At the year-end we had not applied all the grants we have received over the course of the year to expenditure. Dependent on the conditions placed on those grants, we hold unused allocations as either:

- Grants received in advance
 - Noting that there are restrictions on these grants that mean they may have to be returned to the Department for Transport if not used
- Grants Unapplied
 - This is a reserve for capital grants where conditions of use have been met but the resource has not yet been applied to meet expenditure
- Earmarked Revenue Reserves
 - This is a reserve for revenue grants that may only be applied to specific expenditure where conditions of use have been met but the resource has not yet been applied to meet expenditure
- General Fund Reserves
 - This our general reserve where revenue grant without restrictions on usage is held
 - In practice, this is where we hold unused allocations of our Core Grant





Grant Accounting

	£m
Revenue Grants Received in Advance	
- Transport Development Fund – Rail	£0.87
- Transport Development Fund – Road	<u>£0.02</u>
	£0.89
Usable Reserves	
Capital Grants Unapplied	
- Integrated & Smart Ticketing Phase 1 Grant	£1.41
- Integrated & Smart Ticketing General Grant	<u>£0.70</u>
	£2.11
General Fund Revenue Reserves	
- Core Grant	£5.58
- Integrated & Smart Ticketing Grant (Earmarked)	<u>£1.94</u>
	£7.52
Total Usable Reserves	£9.63
Total Resource	£10.52

IST revenue grant, and capital grant funding
REFCUS is shown in the cost of services

Revenue grants specific to certain activity are shown in cost of services

Notes	Gross Expenditure £'000	2018/19 Gross Income £'000	Net £'000
Major Roads Programme (Strategic Development Corridors)	2,638	(99)	2,539
Northern Powerhouse Rail	14,173	(13,379)	794
Integrated and Smart Ticketing	4,129	(5,974)	(1,845)
Operational Areas	10,956	(1,081)	9,876
Cost of Services	31,896	(20,532)	11,364
11 Financing and Investment Income and Expenditure	134	(154)	(20)
12 Taxation and Non-Specific Grant Income	0	(23,470)	(23,470)
Surplus or Deficit on Provision of Services	32,030	(44,156)	(12,126)
29 Remeasurement of the net defined benefit liability / asset			989
Other Comprehensive Income and Expenditure			989
Total Cost of Services			(11,137)

General revenue and capital grants, and capital grants unapplied are shown in non-specific income



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